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Sent: 1/23/2017 9:05:13 PM
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Subject: Ripple RCL and Gateways

Hello everyone,

first I would like to thank Patrick, ████ and ████ for taking the time yesterday to share some of the latest insight on what the future holds for RCL & ILP.

I am including Brad, Chris, Arthur and ████ as this is important.

Given the fact GateHub has been working with RCL almost since it's inception and that we are heavily invested in making ILP work I believe we can provide some interesting feedback on the topic.

I want to be absolutely clear that we think IOU's and exchange functionality should remain a part of RCL (at least for the foreseeable future).

The case for IOU's and decentralized exchange

There are couple of reasons why we chose RCL in the first place. It's decentralized, currency agnostic, super fast and **it has an integrated exchange (that actually works)**.

The last one was especially important as it allowed us to focus on more important pieces that were missing, such as how to connect legacy payment rails to the blockchain (or ledger in this case) without having to spend time on creating yet another exchange.

It also allowed our gateways to be completely independent and risk-free.

Yes, we had a lot of problems with gateways in the past, and yes it's very hard to make the trading experience better than with centralized exchanges. But it is well worth it.

The current setup allows us to offer issuing services on both a decentralized ledger AND private ledger at the same time. It allows our gateway customers to build better payment gateways and do this faster than any bank could.

While many gateways don't actually need to issue funds on any decentralized ledgers, we have many waiting to use our services specifically for this functionality. Integrated decentralized exchange is also very important part in promoting RCL as a "superior" blockchain.

Please see our latest presentation for gateways that we are working on:

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ILP and Settlement

I believe ILPs main challenge will be how to provide sufficient liquidity to "connectors" in order to make payments cheaper. Especially until we reach the critical mass of ILP enabled institutions.

It boils down to the question: "Can a private crypto exchange provide better liquidity to facilitate ILP payments than GateHub Gateway(s)?"

I believe the answer is no (not yet). Here's why:

1. **Compliance** - our gateways are required to hold appropriate licence for the region in which they operate for both issuing money and providing payment services.
2. **Access** - one of our gateways primary function is that it's directly linked to a local payment rail. This allows for faster funding with many existing rails. More gateways means better access. Not to mention possibilities for the "dial-up" ILP...
3. **Infrastructure** - with our Wallet and the upcoming Connector applications we can provide better tools for liquidity providers (connectors).
4. **Risk management** - GateHub is providing real-time KYC/AML checks, identity management and monitoring tools to make sure the issuers (gateways), liquidity providers (connectors) and customers (end-users and businesses) operate in a risk-free environment.
5. **Supported assets** - fiat is being traded on forex, crypto-currencies are being traded on crypto-exchanges, stock on stock exchanges etc... It will take a lot of work and time to ILP enable them all. While Ripple's solutions might be great for banks, there are a lot of other "assets" that needs to be supported before we can call ILP an internet of value.
6. **Settlement** - this is the most important one. In our vision, connectors can INSTANTLY settle funds via RCL. When they run out of funds on one end, they can simply buy them directly from the market. This saves them a lot of money that would otherwise be spent on high wire fees. Not to mention the issuers (gateways) bear no counterparty risk AND they don't need to touch XRP in the process.

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To recap: Payments with our gateways are processed via ILP real-time. When connectors need to reallocate funds, they simply send them "back" via RCL. This process can be completely automated. Since we give connectors the ability of instant settlement between any ILP enabled institution on our platform this becomes a very efficient self sustaining network with no counterparty risk for any of the participant (gateway, liquidity provider or the end-customer).

Retail Business

We promised to serve existing Ripple Trade users when Ripple discontinued its retail products. We hope we can keep this promise for the supportive ripple community.

While our current Wallet was never intended for "everyday" users it does offers them a glimpse of the future. It also offers a better way to interact with the RCL's exchange than previous clients. With our

retail focus shifting towards mobile wallet solution we hope to make the current web version suitable for the "connectors" in this brave new world.

It would be a shame to shut it down especially now when we finally made it easy enough to use. While we will be pushing our gateways towards proprietary solutions based on hosted wallet model and ILP, the current wallet offers everything a gateway need to get their initial services up and running.

Not to mention it gives users a way to hold XRP in a native ripple wallet...

Moving forward

While we completely agree on the long term strategy I would ask you to help us keep the promise to our customers and gateways that are waiting in line to use our services on RCL.

Most importantly we would like Market Making incentives to stay in place for all of our gateways. As you know Flash FX and GateHub are actually using the RCL exchange for real payments and MM program helped us provide better liquidity and lower cost to facilitate these payments.

Please think about keeping the IOU's and exchange functionality intact in the future. If there are no real technical issues, it would be a shame to loose a world's first decentralized exchange.

I think we have had a great relationship on all fronts so far and I hope this can continue in the future. It is in our best interest to help increase the value of XRP as a bridge currency and it's liquidity.

Our team will continue to work closely with ██████ and ILP team to make the best out of ILP. If you have any additional materials that you can share on the big picture of RCL & ILP we'll be happy to read it.

Looking forward to Thursday's call.

Kind regards,

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